
Fact Sheet 3. Low economic resource households

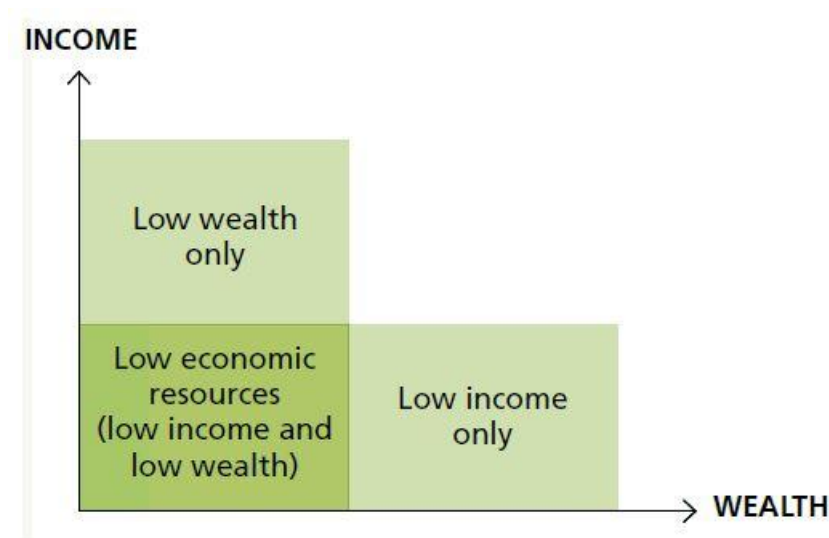
People living in low economic resource households are of particular policy and research interest because of their greater risk of experiencing economic hardship. This fact sheet summarises different methods available to identify these households and provides guidance on methods of analysing them.

There are many factors influencing whether people are experiencing economic hardship. The analysis of household economic well-being is enhanced significantly when the income, consumption and wealth dimensions are studied jointly, recognising they vary over the life cycle:

- income is affected by workforce participation
- wealth tends to be accumulated during people's working life and then consumed in retirement
- younger people may have higher expenditure needs e.g. to buy a home or start a family.

In recognition of the importance of this, the ABS has collected both income and wealth in every Survey of Income and Housing (SIH) from 2003–04 (apart from 2007–08). The ABS Household Expenditure Survey (HES) has been conducted six yearly since 2003–04 on a sub sample of SIH households. Expenditure, financial stress, income and wealth data are available for HES households.

Diagram 1. Low economic resource households



Socio-Economic Indexes for Areas (SEIFA)

Census data (including education, employment, occupation, income and housing) has been used by the ABS to identify the relative socio-economic advantage and disadvantage of geographic areas in Australia compared with other areas.

The 2016 SEIFA includes an Index of Relative Socio- Economic Disadvantage (IRSD) and an Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD).

As well as being used to analyse Census data, the IRSD and IRSAD by decile and/or quintile have also been added to survey files (including CURFs) for household surveys such as the SIH, HES and GSS from 2002 onwards.

For more information: [Census of Population and Housing: Socio-Economic Indexes for Areas \(SEIFA\), Australia, 2016](https://www.abs.gov.au/ausstats/abs@.nsf/mf/2033.0.55.001) (<https://www.abs.gov.au/ausstats/abs@.nsf/mf/2033.0.55.001>) (2033.0.55.001).

Composite measures of low economic resource households

Low economic resource measure

The ABS has developed a low economic resource measure (LER) that includes people who are simultaneously in the lowest four deciles of both equivalised disposable household income (EDHI) (including imputed rent) and equivalised household net worth (LER40). This measure therefore excludes people with either relatively high incomes or relatively high wealth. As a result it is more likely to correctly classify people at risk of experiencing economic hardship compared to measures using income or wealth alone.

The LER is a relative measure that classifies around 20% of people in low income, low wealth households. It does not identify whether these people are actually experiencing economic hardship. The actual proportion will vary over time as the joint distribution of income and wealth changes. One of the strengths of this measure is its ability to contrast the characteristics of the LER population with those in the low income and low wealth quintiles. Table 1 compares selected characteristics of LER households to households with low income or low wealth only. The proportion of couple or lone person households where the reference person is 65 and over, reduces from 18% of low income households to 8% of LER households, reflecting their ability to draw on accumulated wealth.

In contrast, whilst 36% of low income households are private renters, this group accounts for 53% of LER households.

Table 1. Persons in low economic resource households, 2019–20

Household characteristics		Low income(a)	Low wealth(b)	Low economic resource (LER40)(c)	All persons
Mean weekly household income					
Equivalised disposable household income	\$	443	786	605	1,124
Equivalised disposable household income (incl. IR)	\$	487	805	624	1,233
Mean Equivalised net worth	\$'000	261	28	75	586
Tenure Type					
Owner without a mortgage	%	22.0	#0.2	5.0	23.6
Owner with a mortgage	%	30.3	10.9	25.8	44.6
Private renter	%	36.4	71.9	53.4	25.6
Selected household groups					
Couple family with dependent children	%	39.4	33.8	45.6	42.3
One parent family with dependent children	%	16.2	18.0	18.3	7.2
Couple or lone person, 65 and over	%	17.6	5.5	7.7	12.7

Proportion has a high margin of error and should be used with caution.

a. Persons in the lowest two deciles of EDHI (incl. imputed rent)

b. Persons in the lowest two deciles of equivalised household net worth

c. Persons in the lowest four deciles of both EDHI (incl. imputed rent) and equivalised household net worth

Source: ABS Survey of Income and Housing

Other composite measures of economic hardship

The LER measure can be broadened by considering experiences of 'financial stress' or 'missing out'. The indicators used to define these measures are listed in Table 3 of this fact sheet.

Graph 1 shows examples of LER measures by:

- varying the cut-off for low income and low wealth (40th percentile (LER40) or 30th percentile (LER30)), then
- adding whether the household experienced ‘financial stress’ or ‘missing out’.

In 2015–16, 24% of people lived in LER40 households and 16% in LER30 households. When experiences of ‘financial stress’ were also considered this reduced to 14% of LER40 and 10% of LER30 households.

Graph 1. Measures of low economic resource households, proportion of persons, 2015–16

Source: ABS data available on request, Household Expenditure Survey

Single dimension measurement of household economic well-being

When measuring economic well-being it is preferable to consider multiple dimensions, particularly income and wealth, however both measures are not always available. This section describes several commonly used single dimension measures of economic well-being.

Income

Income is the most frequently available measure of economic well-being. For most households, it is the main resource used to meet daily expenses. However, analysis using income alone has significant limitations. Income can be volatile for people who are making transitions between study, jobs, into retirement or changing their hours of work e.g. to care for children. At these times, households may draw on other resources, such as using savings or increasing their debt.

Being able to identify households with accumulated wealth to supplement low incomes is desirable as these people are less likely to experience economic hardship than households without alternative resources to fall back on.

a) Relative poverty measures based on income

Many developed countries use relative poverty to measure the economic well-being of households. These measures identify the proportion of people with an income below a certain fraction of median EDHI. The OECD publishes various analyses based on poverty lines below 40%, 50% or 60% of median incomes (50% used most often), while Eurostat commonly uses 60% as the cut-off.

Limitations of relative poverty measures include:

- the number of people in poverty is determined by an arbitrary fraction of income (which may not reflect actual hardship).
- the proportion of people identified can change dramatically e.g. in Australia, real median incomes have risen significantly in recent years and the thresholds identified at 40% and 50% of the median are very sensitive to changes in single and couple pension payment points relative to the median.
- the definition and measurement of income can have a significant impact e.g. imputed rent (IR) and social transfers in kind (STIK) are often excluded from income definitions. However, the benefits received from either owning a home or receiving subsidised rent (valued by imputing an equivalent rental income), or from receiving services from the government, impact significantly on the economic well-being of particular groups e.g. a person able to access free or subsidised health care can be better off than a person with similar income but not able to access these social provisions.

Table 2 shows that the proportion of the Australian population below a relative poverty line varies between 19% (using 60% of median EDHI) and 2% (using 40% of median EDHI including IR and STIK).

Table 2. Relative poverty measures based on proportion below a percentage of median income, 2017–18

Equivalised disposable	Equivalised disposable	Equivalised disposable household
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	household income	household income plus IR	income plus IR and STIK
	Proportion of persons in households		
40% of median income	5.6	4.6	1.9
50% of median income	10.5	9.1	3.9
60% of median income	19.2	16.1	8.1

b) Low income households

While it is tempting to label all households in the lowest income decile as 'low income', ABS analysis suggests there are variable economic circumstances for households in this group. The ABS defines low income households as households in the lowest equivalised disposable household income quintile, excluding the 1st and 2nd percentiles (i.e. the 3rd to 20th percentiles inclusive). The 1st and 2nd percentiles are excluded due to the high wealth and expenditure characteristics those household exhibit, and the prevalence of income types other than employee income and government pensions and allowances.

Financial stress indicators

While income and wealth statistics describe the economic resources available to people and expenditure statistics describe their consumption patterns, there are other issues relevant to understanding living standards e.g. a person with poor health and high health care costs may have reduced income for other purchases. In attempting to identify which households have the lowest economic well-being, other indicators of poor economic outcomes can be considered. Data relating to experiences of financial stress and missing out are collected in the HES.

Indicators of financial stress in the last 12 months

Financial stress experiences:

- Unable to raise \$2000 in a week for something important
- Spend more money than received
- Could not pay gas, electricity or telephone bill on time
- Could not pay registration or insurance on time
- Pawned or sold something
- Went without meals
- Unable to heat home
- Sought assistance from welfare/community organisations
- Sought financial help from friends or family

Missing out experience:

- Could not afford holiday for at least one week a year
- Could not afford a night out once a fortnight
- Could not afford friends or family over for a meal once a month
- Could not afford special meal once a week
- Could only afford second hand clothes most of the time
- Could not afford leisure or hobby activities

Financial stress information can provide insight into people's economic well-being although analysis needs to

consider overall circumstances. Some individuals may have consumption priorities which differ from socially accepted norms of the 'basics of life'. In 2015–16, 14% of household in the highest EDHI quintile reported at least one financial stress indicator (Graph 2). As in previous years, the most commonly reported indicators of financial stress were the inability to afford a holiday for at least one week a year (23%), followed by an inability to afford a night out once a fortnight (17%).

Graph 2. Proportion of households experiencing financial stress in last 12 months, by income quintile, 2015–16

Source: ABS Household Expenditure Survey

Measuring persistent economic hardship

Another key policy interest is people experiencing longterm and persistent economic hardship as distinct from those experiencing short-term hardship.

Longitudinal datasets, such as the Household Income and Labour Dynamics Australia Survey (HILDA) and the ABS Australian Census Longitudinal Dataset (ACLD), are important sources for identifying people experiencing long-term economic hardship. The HILDA has been tracking the economic circumstances of more than 17,000 respondents since 2001. The (ACLD) will provide a five-yearly snapshot of the income and housing circumstances of people from 2006.

The SIH measures the short-term persistence of economic hardship by comparing income from the previous financial year with current year income. The circumstances of people with low incomes in both periods can be identified. Combined with wealth data which is more stable over time, this provides a more accurate picture of whether hardship is persistent.

As well as financial stress experiences, the HES also collects data on people's perception of their current financial circumstances compared to two years ago and their ability to save money.

For more information:

- Australian Bureau of Statistics (ABS) 2013, Household Income and Income Distribution, Australia, 2011–12, (cat. no. 6523.0), Feature article: [Low Economic Resource Households \(https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/6523.0Feature%20Article12011-12?opendocument&tabname=Summary&prodno=6523.0&issue=2011-12&num=&view=\)](https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/6523.0Feature%20Article12011-12?opendocument&tabname=Summary&prodno=6523.0&issue=2011-12&num=&view=)
- Australian Bureau of Statistics (ABS) 2017, Household Expenditure Survey, Australia: Summary of Results, 2015–16, [Financial stress and spending \(/statistics/economy/finance/household-expenditure-survey-australia-summary-results/latest-release#financial-stress-and-spending\)](https://www.abs.gov.au/ausstats/abs@.nsf/Statistics/economy/finance/household-expenditure-survey-australia-summary-results/latest-release#financial-stress-and-spending)
- McLachlan, R., Gilfillan, G. and Gordon, J. 2013, [Deep and Persistent Disadvantage in Australia, Productivity Commission Staff Working Paper, Canberra \(https://www.pc.gov.au/research/supporting/deep-persistent-disadvantage\)](https://www.pc.gov.au/research/supporting/deep-persistent-disadvantage)